Ontario Northland

Ontario Northland Transportation Commission
2012-2013 Annual Report

www.ontarionorthland.ca

2012-2013 Annual Report

Ontario Northland Transportation Commission
555 Oak Street East
North Bay, Ontario
P1B 8L3

1.705.472.4500 or 1.800.363.7512

info@ontarionorthland.ca
www.ontarionorthland.ca

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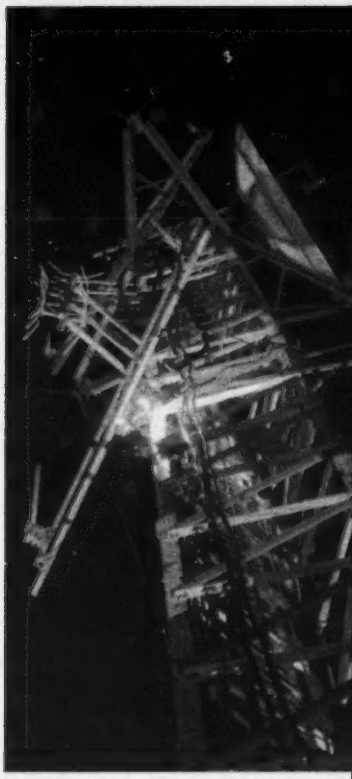


Company Overview

The Ontario Northland Transportation Commission (Ontario Northland), an Agency of the Province of Ontario, was established in 1902 with a mandate to promote sustainable economic growth by establishing and operating transportation and telecommunication links throughout Northern Ontario.

Our Services:

Headquartered in North Bay and operating primarily in Northeastern Ontario, Ontario Northland's non-commercial (provincially-mandated and subsidized) services include:

- The Polar Bear Express (passenger train service between Cochrane and Moosonee);
- Rail freight services between Cochrane and Moosonee; and
- The Niska I ferry (freight transportation between Moosonee and the island of Moose Factory).

Commercial services include:

- Ontera telecommunications services;
- Rail freight services;
- Refurbishment services; and
- Scheduled and charter motor coach services and Bus Parcel Express.

Corporate Governance

Ontario Northland is an agency of the Government of Ontario. An agency is a provincial government entity that is not organizationally part of a ministry, and:

- is established by government through a constituting instrument (under or by statute, regulation, or order in council);
- is accountable to a minister for fulfilling its legislative obligations, the management of the resources it uses, and its standards for any services it provides;
- where government makes the majority of appointments; and
- with the authority and responsibility granted by the government to perform an ongoing public function or service.

Ontario Northland operates under the *Ontario Northland Transportation Commission Act* and the Minister of Northern Development and Mines is responsible for administration of the Act. The Act was established in 1902, and was most recently revised in 2006.

Ontario Northland is also governed by a Memorandum of Understanding (MOU) that was updated in 2012. The purpose of this MOU is to set the accountability relationship between the Ontario Northland Transportation Commission and the Ministry of Northern Development and Mines (MNDM). Specifically, the responsibilities of the Minister, Deputy Minister, Chair of the Ontario Northland Transportation Commission, the Board, and the CEO are outlined within the MOU.

Mandate

On March 23, 2012 the Province of Ontario approved a revised mandate for the ONTC directing that the assets of the ONTC be divested, that alternative service delivery models be implemented to deliver transportation services in Northern Ontario and that the ONTC be dissolved. The revised mandate of the ONTC is to:

a) divest its assets and business units subject to the approval of the Province of Ontario;

b) wind up and liquidate any assets and obligations which cannot be so divested; and

c) until the completion of the divestiture process, to continue to provide efficient, safe and reliable services in Northern Ontario as directed by the Province of Ontario through the Minister from time to time.

Reporting Structure

The President and CEO reports to the Ontario Northland Transportation Commission, comprised of a Chair and Commission members, each of whom have been appointed by the Province of Ontario. The Commission, in turn, reports to the Ministry of Northern Development and Mines and its Minister, who are responsible for overseeing the Company on behalf of the Province of Ontario.

Commission

On March 23, 2012 the Minister announced the province was going to divest itself of the assets of Ontario Northland. New commission members were appointed to replace the existing Commission with Ted Hargreaves remaining as Chair and a transition board was appointed on March 23, 2012 when the province announced the divestment. The board consists of:

Ted Hargreaves, North Bay, Chair
(appointment April 1, 2012 to March 31, 2013)

Philip Howell, Toronto, CEO of the Financial Services Commission of Ontario
(appointment April 1, 2012 to March 31, 2013)

Mahmood Nanji, Toronto, Assistant Deputy Minister, Ministry of Economic Development and Innovation
(appointment April 1, 2012 to March 31, 2013)

Greg Percy, Toronto, Vice President, Operations, Metrolinx
(appointment April 1, 2012 to March 31, 2013)

Jonathan Weisstub, Toronto, Head of New Partnerships, Infrastructure Ontario
(appointment April 1, 2012 to March 21, 2013)

Principal Officers – Ontario Northland

Paul Goulet
President and Chief Executive Officer

Kevin Donnelly
Vice President of Finance and Administration

Corina Moore
Chief Operating Officer and Vice President of Refurbishment

Amedeo Bernardi
Vice President and General Manager of Ontera

John Thib
Vice President of Rail

Scott Hancock
Vice President of Passenger Services

Geoff Cowie
General Counsel

Employees

Ontario Northland employs less than 1,000 individuals, who live and work in Northern Ontario and Northwestern Quebec.

As a Crown agency Ontario Northland employees fall under the same strict guidelines as all public servants and must report any incentives or perquisites that they receive from the company. After six months of employment, employees and their immediate family are issued passes allowing them no cost rail travel on the Polar Bear Express and Northlander trains. Travel is subject to space/availability on date of travel. A 50% discount is offered to employees who travel by bus to/from destinations within Northeastern Ontario. Employees are also eligible to receive reduced freight rates between Cochrane and Moosonee.

Financial Statements are located on page 12 to 34. The audited financial statements list three wholly-owned subsidiaries – Ontera, Ontario Northland International Consulting Services, and Nipissing Central Railway. The Nipissing Central Railway refers to the Rouyn subdivision and falls under Rail Services and Ontario Northland International Consulting Services has nothing to report.

Message from the Chair

In March of 2012, the Ontario government announced it was divesting the Ontario Northland Transportation Commission.

Following that announcement, Ontario Northland faced the challenge of continuing to provide its high level of services to the residents and businesses of Northeastern Ontario while preparing for and working toward the cancellation or sale of its various operations.

Ontera, the telecommunications division of Ontario Northland, was the first business unit placed for sale. To meet the Province's commitment for undertaking these activities in a fair, open and transparent manner, Infrastructure Ontario has led the divestiture process. Formal proposals to purchase, manage and operate Ontera were received and evaluated by Infrastructure Ontario.

On August 16, 2012, it was announced that the Northlander passenger train would be cancelled. The Northlander completed its last scheduled run on September 28, 2012.

The Polar Bear Express passenger train continued to operate between Cochrane and Moosonee and Ontario Northland continued to provide motor coach services on its scheduled routes.

Rail services continued to experience losses as traditional resource based customers faced their own economic challenges and demand for freight decreased significantly.

Refurbishment continued work on contracts awarded late in 2011 and early 2012.

Even with the uncertainty surrounding the operations, Ontario Northland employees stayed focused on providing safe and efficient transportation and telecommunication service delivery.

Ted Hargreaves,
Chair,
Ontario Northland Transportation Commission

2012-2013 in Review

Passenger Services

The Northlander passenger train service was discontinued on September 28, 2012. As a result of the cancellation, increased demand was placed on the motor coach division.

Motor coach services effectively supported the transition of passengers from the Northlander passenger rail service and served 4 per cent more passengers in 2012-13. The division focused its resources on its regular scheduled routes, and moved away from a charter business. The motor coach fleet was reduced by ten coaches due to aging equipment. The number of charters days was reduced significantly due to the reduction of coaches. Charter service was limited to marquee clients who had existing multi-year contracts with Ontario Northland.

Thanksgiving and Christmas proved to be challenging and bus equipment was leased to handle increased demand.

Polar Bear Express service was increased during the March Break at the request of the community. The extra days of service proved to be popular with passengers, however, overall the ridership declined 3 per cent from the previous year.

The customer satisfaction rate on the Polar Bear Express was 79 per cent, falling short of the performance measure of 95 per cent.

The Station Inn's occupancy rate for this fiscal period was 59 per cent. An online reservation system for the Station Inn was added to the corporate website.

Passenger Numbers:

	2012-2013	**2011-2012**
Northlander	21,353*	39,911
Polar Bear Express	62,389	64,188
Motor Coach	240,122	230,616
Charter Days	745 days	934 days

* Operated from April 1, 2012 to September 28, 2012

Ontera Telecommunication Services

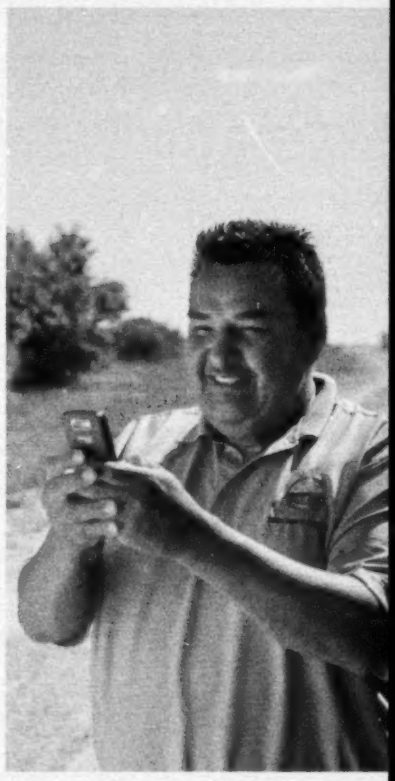
The Minister of Northern Development and Mines announced that Ontera would be the first business line of the ONTC to be divested in August of 2012. Infrastructure Ontario was tasked with the sale of the division. In October 2012, Infrastructure Ontario began a due diligence process in an effort to realize the full market potential of the business line.

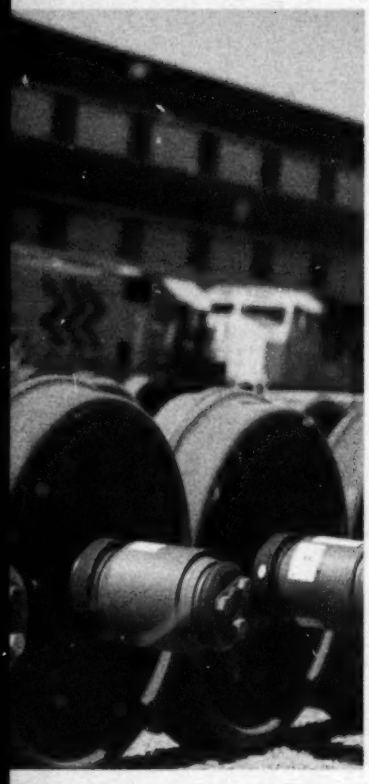
The carrier and wholesale segment remained steady over the interval adjusted for re-price effects and experienced strong quoting and order activity. However, companies such as Bell Canada and Allstream continue to reduce their costs by eliminating older, higher margin circuits and replacing them with lower cost ethernet based circuits.

Overall, declines in retail voice services such as long distance voice services and legacy data services have created a prolonged downward revenue trend.

Customer service metrics continued to exceed industry standards with 92% of customer calls being answered within 20 seconds.

Ontera successfully focused on operational effectiveness and cost reductions which helped offset revenue losses so that earnings remained consistent from the previous year.





2012-2013 in Review

Rail Services

Rail infrastructure improved dramatically as a result of the work of the seasonal production crews and year-round track maintenance personnel. The long-term rail renewal and maintenance plan, which established a systematic renewal and maintenance plan for Ontario Northland rail infrastructure, began to show visible improvements and results this fiscal year.

Despite the impact of the cancellation of the Northlander passenger train, rail revenues increased approximately 3 per cent from the prior year. An emphasis on cost containment along with the elimination of certain expenses related to the Northlander service reduced operating expenses by approximately 8 per cent over the same time period. With these changes Rail Service reduced its operating loss by approximately 12 per cent year over year.

Just over 34,000 car loads were shipped during this period. Freight in the forest products sector increased due to increased volume of lumber car movements out of Hearst and Kapuskasing.

Cochrane saw increased freight shipments due to the construction of a large gold mine located northeast of the municipality. Once the mine is in production, Ontario Northland will see ongoing shipments of consumables for this large gold mine operation.

The Mechanical Department completed several large projects. Locomotive 2101, which was involved in a crossing incident, returned to active service. Locomotive 2102 was also repaired and returned to service. This unit was involved in a serious incident two years ago and sustained significant damage.

The Polar Bear Express train maintained excellent on-time service, even during a particularly difficult winter of extreme weather.

Crossing incidents decreased this year with one event occurring with no injuries and minimal operational impact.

The Rail Division was the lead in bringing the Grey Cup Train, a commemorative football train that travelled through Canada, to North Bay. Rail also organized the Christmas Train event which visited 9 northern communities during December 2012.

On Time Arrival Performance:
(% based on trains arriving within 30 minutes of schedule)

	2012-2013	2011-2012
Northlander	82%*	72%
Polar Bear Express	95%	84%

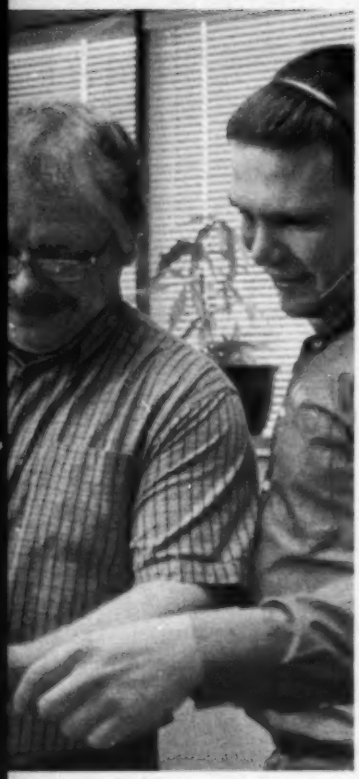
* Operated from April 1, 2012 to September 28, 2012

Refurbishment Services

The Refurbishment Division continued to work on the full refurbishment and painting of twenty-four 700-series coaches for Agence métropolitaine de transport of Montreal (AMT). The first refurbished car was shipped to AMT on January 11, 2013 and all 24 cars are expected to be completed by the fall of 2013.

The Metrolinx/CAD Railway 10 car bi-level 5 assignment contract was put on hold pending engineering and production information from CAD Railway. This information is expected to be provided in the spring of 2013 and the work completed by the summer of 2014.

Refurbishment revenues decreased by approximately 35% from the prior year. The division continues to seek a large year-to-year contract to sustain the division.



2012-2013 in Review

Corporate Services

FACILITIES: Facilities Management was reduced from six to four management staff. Facilities Management support was eliminated in the Cochrane-Moosonee, Cochrane-Timmins, and Cochrane-Hearst corridors due to the reduction of resources.

FINANCE: The ONTC continued to face significant cash flow challenges in 2012-2013 resulting in a restriction of capital and operating spending. The ONTC continues to face funding and contribution issues with respect to maintaining the viability of the pension plan. Having entered Stage 1 of the Broader Public Sector Temporary Solvency Funding Relief program, ONTC, led by the Finance department began preparations to identify possible steps that the Commission would consider in order to make the Plan more sustainable and attain the Savings Target for the Plan, as defined by the Technical Paper issued by the Ministry of Finance in early 2011. Finance continued to search for increased efficiencies within its operations and as well, to provide support to operating divisions in their efforts to service the needs of our northern customers, while responding to inquiries and requests for information surrounding divestment activities.

HUMAN RESOURCES: In this fiscal year - 35 people were hired while 119 left the organization. Not replacing 84 positions resulted in significant payroll savings (about $5M) and the organization continued to run a safe operation. Dealing with Uncertainty sessions were held in locations throughout our system in October to help employees cope with the divestment announcement. These sessions reached over 400 employees and were available online for employees in remote locations.

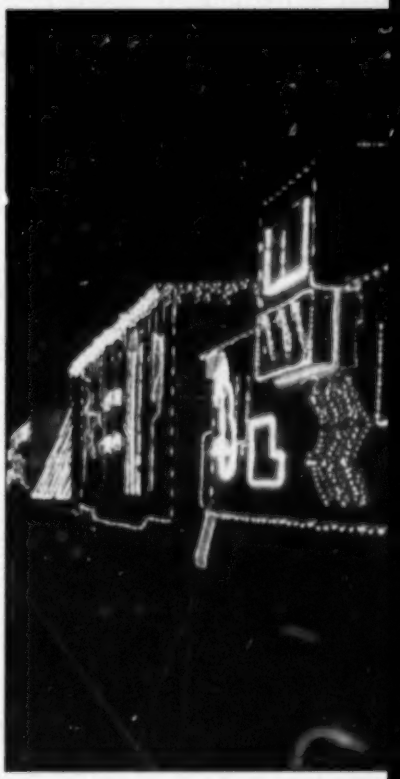
INFORMATION TECHNOLOGY: The ONTC updated the public Wi-Fi system on the bus fleet, resulting in an annual savings of $34k and improved speed and system management. An upgraded virtual environment and private cloud capabilities resulted in improved performance, increased resiliency and faster time to value for customers/ projects. A new customer self service option for accessing IT services was implemented and the department launched its inaugural service catalogue. Live streaming and live chat services were introduced and major improvements to the disaster recovery plan including enhanced UPS, backup and DNS services.

MARKETING AND COMMUNICATIONS: The ONTC received national media attention on the Northlander cancellation and regional coverage of the divestment process throughout the fiscal year. Over 2,000 stories about the organization appeared in the media. An Ontera video was produced in spring 2013, a refreshed Ontera website was launched in July, and a corporate Twitter account was created in October 2012, over 85 translations were produced, and the department coordinated many corporate events including the Grey Cup Train visit and the Christmas Train events.

PROJECT MANAGEMENT: The Project Management Office successfully managed of 76 projects, completed 348 work orders, and monitored and controlled thousands of individual task assignments. The Project Management Office also directed the ONTC divestiture due-diligence SharePoint sites working with over 292 external contacts amassing 7402 files, 9633 emails, and over 10GB of documents stored in the virtual data rooms.

PROCESS IMPROVEMENT: Lean Six Sigma was introduced to Rail Mechanical Operations, dramatically improving process flow, most notably in the Wheel Shop. Leadership and advice was provided to the teams working on continuous process improvement in other departments resulting in 16 Lean Six Sigma Green Belt projects and 37 spin off kaizen improvement projects across the enterprise.

2012-2013 in Review



Ontario Northland in our Communities

Ontario Northland employees continued to significantly contribute to local service clubs, sports clubs and community organizations throughout Northeastern Ontario. In addition, as a corporate citizen, Ontario Northland coordinated the following activities:

Christmas Train – The second year of this holiday event saw increased attendance at all locations. A Moosonee event was added to the schedule.

Grey Cup Train – The CFL's Grey Cup 100th Anniversary Train that toured the country stopped at the North Bay station in November. Ontario Northland worked with The City of North Bay to promote this special event and welcomed thousands of visitors into our station.

Green Initiatives

Our telecommunications, travel and transportation solutions are inherently environmentally friendly. The company considers environmental impacts when introducing new services or updating facilities. The following activities are just a few of the operational initiatives that were put into place to lessen environmental impacts:

- Anti idling practices – rail, motor coach and telecom services
- Ultra low sulphur diesel fuel – motor coach services
- Diesel powered generator sites updated to prevent accidental spills - remote microwave sites
- Battery plants renewed to provide efficient backup power
- Building and lighting retrofits to be energy efficient
- Electronics recycling collection programs

Safety

Safety continued to be a priority in 2012-2013 with focus on safe work practices.

Ontario Northland Transportation Commission

Consolidated Financial Statements

For the year ended March 31, 2013

Ontario Northland Transportation Commission
Consolidated Financial Statements
For the year ended March 31, 2013

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Management's Responsibility

The Ontario Northland Transportation Commission's management is responsible for the integrity and fair presentation of the consolidated financial statements and other information included in the annual report. The consolidated financial statements have been prepared in accordance with Canadian public sector accounting standards. The preparation of consolidated financial statements necessarily involves the use of management's judgment and best estimates, particularly when transactions affecting the current accounting period cannot be determined with certainty until future periods. All financial information in the annual report is consistent with the consolidated financial statements.

The Commission maintains systems of internal accounting controls designed to provide reasonable assurance that the financial information is accurate and reliable and that the Commission's assets and liabilities are adequately accounted for and assets safeguarded.

The Commission is responsible for ensuring that management fulfils its responsibilities for internal control and financial reporting. The Commission meets with management and external auditors to satisfy itself that each group has met its responsibilities. These consolidated financial statements have been reviewed and approved by the Commission.

These consolidated financial statements have been audited by the Auditor General of Ontario, whose responsibility is to express and opinion on whether they are fairly presented in accordance with Canadian public sector accounting standards. The Auditor's Report which follows outlines the scope of the Auditor's examination and opinion.

T. Hargreaves
Chair

P. Goulet
President and CEO

North Bay, Ontario
July 18, 2013

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Ontario Northland Transportation Commission
and to the Minister of Northern Development and Mines

I have audited the accompanying consolidated financial statements of Ontario Northland Transportation Commission, which comprise the consolidated statement of financial position as at March 31, 2013, and the consolidated statements of changes in net assets, operations, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ontario Northland Transportation Commission as at March 31, 2013, and the changes in its consolidated net assets, results of its consolidated operations, and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Emphasis of Matter

Without qualifying my opinion, I draw attention to Note 1 to the consolidated financial statements which indicate that the Province of Ontario announced its intention to transform the operations of the Ontario Northland Transportation Commission and to operate it as a going concern while various options for transforming the Commission are examined. The Ontario Northland Transportation Commission's ability to maintain operations is dependent on the continued support from the Government of Ontario while completing its transformation plans. These conditions indicate the existence of a material uncertainty that may cast doubt about the Ontario Northland Transportation Commission's ability to continue as a going concern.

Box 105, 15th Floor
20 Dundas Street West
Toronto, Ontario
M5G 2C2
416-327-2381
fax 416-326-3812

B.P. 105, 15e étage
20, rue Dundas ouest
Toronto (Ontario)
M5G 2C2
416-327-2381
télécopieur 416-326-3812

www.auditor.on.ca

Toronto, Ontario
July 18, 2013

Gary Peall, CPA, CA, LPA
Acting Auditor General

Ontario Northland Transportation Commission
Consolidated Statement of Financial Position
(dollars in thousands)

March 31, 2013, with comparative figures for 2012

	2013	2012
Assets		
Current		
Cash (Note 3)	$ 8,255	$ 6
Accounts receivable (Net of allowance - $ 1,597; 2012 - $1,714);	29,388	22,676
Inventory	16,100	13,552
Prepaid expenses	630	658
	54,373	36,892
Capital assets (Schedule 1)	318,966	313,543
Accrued pension benefit asset (Note 4a)	47,881	52,488
	$ 421,220	$ 402,923
Liabilities and Net Assets		
Current		
Accounts payable and accrued liabilities	25,015	24,501
Current portion of long-term debt	4,756	4,492
Current portion of deferred revenue	800	3,949
	30,571	32,942
Deferred revenue	621	759
Deferred capital contributions (Note 6)	148,093	126,630
Long-term debt (Note 7)	22,616	27,356
Accrued non-pension benefit obligation (Note 4b)	69,721	68,143
	271,622	255,830
Net assets		
Unrestricted	144,645	142,297
Internally restricted	4,953	4,796
	149,598	147,093
Nature of Operations (Note 1)		
Contingencies (Note 10) / **Commitments** (Note 11)		
	$ 421,220	$ 402,923

Approved on behalf of the Commission:

Chair

President and CEO

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements

Ontario Northland Transportation Commission
Consolidated Statement of Changes in Net Assets
(dollars in thousands)

Year ended March 31, 2013, with comparative figures for 2012

	2013	2012
Unrestricted net assets		
Balance, beginning of year	$ 142,297	$ 122,598
Excess of revenues over expenses	2,505	19,857
Internally restricted - transfer to Reserve for Self Insurance	(157)	(158)
Balance, end of year	$ 144,645	$ 142,297
Internally Restricted - Reserve for Self Insurance (Note 9)		
Balance, beginning of year	$ 4,796	$ 4,638
Transfers from Unrestricted Net Assets		
Interest earned	57	58
Annual premium	100	100
	157	158
Balance, end of year	$ 4,953	$ 4,796
Total Net Assets	$ 149,598	$ 147,093

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Ontario Northland Transportation Commission
Consolidated Statement of Operations

Year ended March 31, 2013, with comparative figures for 2012

(dollars in thousands)

	2013	2012
Rail Services		
Sales revenue (Note 12)	$ 51,788	$ 50,383
Operating Expense	69,138	75,411
Deficiency of revenue over expenses before the undernoted	(17,350)	(25,028)
Amortization of capital assets	11,143	10,433
Employee future benefit expense	6,918	4,468
Gain on sale of capital assets	(444)	(418)
Interest expense	359	537
Deficiency of revenue over expenses	(35,326)	(40,048)
Telecommunications (Ontera)		
Sales revenue	28,408	29,873
Operating Expense	22,692	27,734
Excess of revenue over expenses before the undernoted	5,716	2,139
Amortization of capital assets	5,151	4,638
Employee future benefit expense	1,720	1,061
Gain on sale of capital assets	-	(26)
Interest expense	1,084	1,214
Deficiency of revenue over expenses	(2,239)	(4,748)
Motor Coach Services		
Sales revenue	10,967	11,488
Operating expense	11,127	12,131
Deficiency of revenue over expenses before the undernoted	(160)	(643)
Amortization of capital assets	351	410
Employee future benefit expense	762	463
Loss (gain) on sale of capital assets	482	(165)
Interest expense	94	98
Deficiency of revenue over expenses	(1,849)	(1,449)
Refurbishment		
Sales revenue	4,757	7,348
Operating expense	7,901	9,633
Deficiency of revenue over expenses before the undernoted	(3,144)	(2,285)
Amortization of capital assets	85	85
Employee future benefit expense	875	490
Interest expense	116	129
Deficiency of revenue over expenses	$ (4,220)	$ (2,989)

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements

Ontario Northland Transportation Commission
Consolidated Statement of Operations

Year ended March 31, 2013, with comparative figures for 2012

(dollars in thousands)

	2013	2012
Marine Services (Moosonee)		
Sales revenue	$ 180	$ 153
Operating Expense	503	370
Deficiency of revenue over expenses	(323)	(217)
Development		
Sales revenue	543	592
Operating expense	352	359
Excess of revenue over expenses before the undernoted	191	233
Amortization of capital assets	37	37
Gain on sale of capital assets	-	(1)
Excess of revenue over expenses	154	197
Administration		
Operating expenses and deficiency of revenue over expenses before the the undernoted	8,242	8,924
Amortization of capital assets	111	111
Employee future benefit expense	1,075	704
Interest expense	16	167
Gain on sale of capital assets	(132)	(64)
Deficiency of revenue over expenses	(9,312)	(9,842)
Total Operations		
Sales revenue	96,643	99,837
Operating Expense	119,955	134,562
Deficiency of revenue over expenses before the undernoted	(23,312)	(34,725)
Amortization of capital assets	16,878	15,714
Employee future benefit expense	11,350	7,186
Derailment costs	-	3,657
Gain on sale of capital assets	(93)	(674)
Interest expense	1,669	2,145
Deficiency of revenue over expenses before Government reimbursement and the following items	(53,116)	(62,753)
Government reimbursement (Note 8)	50,292	78,215
Amortization of deferred capital contributions (Note 6)	5,268	4,309
Excess of revenue over expenses before the following items	2,444	19,771
Investment and other income	4	28
Investment income on Reserve for Self Insurance	57	58
Excess of revenue over expenses for the year	$ 2,505	$ 19,857

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements

Ontario Northland Transportation Commission
Consolidated Statement of Cash Flows

Year ended March 31, 2013, with comparative figures for 2012

(dollars in thousands)

	2013	2012
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	$ 2,505	$ 19,857
Items not affecting cash		
Amortization of capital assets	16,878	15,714
Amortization of deferred capital contributions	(5,268)	(4,309)
Gain on disposal of capital assets	(93)	(674)
Derailment costs	-	3,657
Employee future benefit expense	11,350	7,186
	25,372	41,431
Changes in non-cash working capital balances		
Accounts receivable	(6,712)	(5,754)
Inventory	(2,548)	2,824
Prepaid expenses	28	325
Accounts payable and accrued liabilities	514	(6,735)
Deferred revenue	(3,287)	3,627
Net pension benefit asset	(2,996)	(24,901)
Net non-pension benefit obligation	(2,169)	(2,164)
	8,202	8,653
Capital activities		
Investment in capital assets	(24,543)	(21,906)
Proceeds from sale of capital assets	93	674
	(24,450)	(21,232)
Financing activities		
Operating lines of credit	-	(12,300)
Long-term debt	(4,476)	(4,272)
Capital lease obligations	-	(24)
Deferred capital contributions	28,973	22,358
	24,497	5,762
Change in cash during the year	8,249	(6,817)
Cash, beginning of year	6	6,823
Cash, end of year	$ 8,255	$ 6

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Ontario Northland Transportation Commission
Consolidated Schedule of Capital Assets
Schedule 1
(dollars in thousands)

Year ended March 31, 2013, with comparative figures for 2012

	Cost	Accumulated Amortization	2013 Net Book Value	2012 Net Book Value
Rail Services				
Roadway	$ 342,272	$ 133,403	$ **208,869**	$ 198,799
Buildings	43,547	20,743	**22,804**	23,450
Equipment	77,102	52,904	**24,198**	26,453
Equipment under capital lease	1,022	349	**673**	723
Under construction	8,699	-	**8,699**	4.035
Telecommunications (Ontera)				
Equipment	165,828	127,368	**38,460**	43,445
Buildings	6,751	4,421	**2,330**	2,496
Motor Coach Services				
Coaches	5,828	4,278	**1,550**	2,366
Buildings	2,796	413	**2,383**	2,454
Refurbishment				
Equipment	585	147	**438**	450
Buildings	3,435	554	**2,881**	2,950
Marine Services (Moosonee)				
Vessels	4,808	556	**4,252**	4,456
Development				
Land and buildings	2,851	1,422	**1,429**	1,466
	$ 665,524	$ 346,558	$ **318,966**	$ 313,543

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

1. Nature of Operations

The Ontario Northland Transportation Commission (the "Commission"), an Operational Enterprise of the Province of Ontario ("the "Province"), delivers a variety of services, including rail freight, passenger rail, motor coach and telecommunications primarily in the north-eastern portion of Northern Ontario.

On March 23, 2012, the Province announced its intent to divest the operations of the Commission. A transition board was appointed to oversee continuing operations during the divestment process. The mandate of the Commission as set out in an Memorandum of Understanding between the Commission and the Ministry of Northern Development and Mines was to:

(a) divest its assets and business units subject to the approval of the Province;

(b) wind up and liquidate any assets and obligations which cannot be so divested; and

(c) until the completion of the divestiture process, to continue to provide efficient, safe and reliable services in Northern Ontario as directed by the Province through the Minister of Northern Development and Mines (the "Minister") from time to time.

Subsequently in May 2013, the Province announced new direction for transformation of the ONTC. In July 2013, the Memorandum of Understanding between the Commission and the Ministry of Northern Development and Mines was revised to reflect a new mandate that ONTC continue operating as a going concern while efforts to transform the agency continue with the examination and implementation of options, including divestment, restructuring, alternative service delivery, and new partnerships. This involves:

(a) continuing to provide and ensuring efficient, safe and reliable services in Northern Ontario throughout the transformation process and as directed by the Province of Ontario through the Minister from time to time; and

(b) supporting transformation efforts and preparing assets and business lines for transformation activities subject to the approval of the Province of Ontario.

The Commission's ability to maintain operations is dependent on the continued support from the Province. Accordingly, these consolidated financial statements have been prepared on a going concern basis. This assumes that the Commission will be able to realize its assets and discharge its liabilities in the ordinary course of business.

These consolidated financial statements do not reflect any adjustments that would be necessary if the going concern assumption were not applicable. If the going concern assumption were not applicable for these financial statements, adjustments to the carrying value of assets would be necessary and reported revenues and expenses and statement of financial position classifications used to reflect these on a liquidation basis would differ from those applicable to a going concern.

2. Significant Accounting Policies

These consolidated financial statements are prepared in accordance with the standards applicable for government not-for-profit organizations found in the Canadian Institute of Chartered Accountants ("CICA") Public Sector Accounting Handbook. They include the accounts of the Commission and its wholly-owned subsidiaries, Ontario Northland International Consulting Services Inc., O.N. Tel Inc. (o/a Ontera) and Nipissing Central Railway Company.

Revenue Recognition

Revenue from all sources is recognized when all of the following conditions are met:

a) services are provided or products delivered to customers
b) there is clear evidence that an arrangement exists, and
c) collection is reasonably assured.

Rail services revenues are generally recognized on completion of movements, with interline movements being treated as complete when the shipment is turned over to the connecting carrier.

Contract revenues are generally recorded on a percentage of completion basis as work reaches predetermined project milestones.

Monthly subscriber fees in connection with wireless telecommunications services, internet services, network, local and long distance services are recorded as revenue as the service is provided. Any revenue or cost adjustments, whether positive or negative, in the interconnection and traffic settlement agreements are recognized in the year in which they become known and estimable.

The Commission accounts for provincial and federal reimbursements under the deferral method of accounting as follows:

- Unrestricted reimbursements are recognized as revenue when received or receivable if the amounts can be reasonably estimated and collection is reasonably assured.

- Externally restricted reimbursements related to operating expenditures are recognized as revenue when the related expenditures are incurred.

- The Province reimburses the Commission for the cost of certain capital assets purchased for use in operations. The Commission records the contributions as deferred capital contributions. Deferred capital reimbursements are amortized to revenue on a straight-line basis at rates corresponding to those of the related capital assets.

2. Significant Accounting Policies (continued)

Capital Assets

Capital assets are stated at acquisition cost less accumulated amortization. Amortization is provided using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives for principal categories of capital assets are as follows:

Roadway - main line and branches	20 to 50 years
Railway diesel locomotives	25 years
Railway cars	33 years
Buildings	50 years
Telecommunications equipment	15 to 25 years
Vehicles	3 years
Computer equipment	5 years
Coaches	12 years

No amortization is provided on assets under construction until they are placed in use.

Employee Future Benefits

Pension Plans - The Commission maintains a contributory defined benefit pension plan for its employees. It provides for pensions based on years of service and average pensionable earnings and is generally applicable from the first day of the month following employment. A Supplementary Employee Retirement Plan (SERP) also exists for employees who earn a lifetime pension amount in excess of the Canadian Income Tax Act's maximum. The obligations under the plan are determined using the accrued benefit method reflecting projected benefits for services rendered to date. The plans are not indexed; however, there have been a variety of ad hoc increases made to pensioners.

Non-Pension Benefit Plans - The Commission offers non-pension post retirement benefits such as group life, health care and long-term disability to employees through defined benefit plans. The costs associated with these future benefits are actuarially determined using the projected benefits method prorated on service and best estimate assumptions. In addition, as a Schedule 2 employer under the Workplace Safety and Insurance Board (WSIB), the Commission recognizes workers compensation benefits on an accrual basis using actuarial calculations provided by the WSIB for benefits in force, benefits not yet awarded and administrative loading costs.

2. Significant Accounting Policies - *Employee Future Benefits* (continued)

Both Pension and Non-Pension expenses consist of current service costs, interest and adjustments arising from plan amendments, changes in assumptions and net actuarial gains or losses. These expenses are recorded in the year in which employees render services to the Commission. Past services pension costs were charged to net assets on transition to P5-3250. Actuarial gains and losses are amortized on a straight-line basis over the EARSL of the employees covered by the plans (approximately 12 years). Past service costs are recognized in the period of plan amendment.

Pension fund assets are valued using current market values.

Inventory

Materials and supplies, with the exception of used rail and wheel-sets, are valued at the lower of cost and net realizable value by using the weighted-average costing methodology. Used rail is shown at unamortized book value determined at the time of retirement. Wheel-sets are valued at standard cost. The Commission uses the same cost formulas for all inventories having a similar nature and use to the Commission. When net realizable value is less than carrying cost, inventory is written down accordingly. When circumstances which previously caused inventories to be written down no longer exist, that previous impairment is reversed.

The cost of inventory expensed to operations and used in capital projects for 2013 was $17,853 (2012 - $20,683).

Impairment of Capital Assets

Capital assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the capital asset may not contribute to the Commission's ability to deliver services. Recoverability is measured by a comparison of the carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, both the asset and any related deferred capital contributions are written down by the amount by which the carrying amount of the asset exceeds the fair value of the asset. When quoted market prices are not available, the Commission uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated at the prevailing rates of exchange at the Consolidated Statement of Financial Position date. Revenues and expenses are translated at the rates of exchange in effect at the transaction date. Realized and unrealized gains and losses are included in the determination of excess of revenue over expenses. Included in Rail revenue is a foreign currency gain of $36 (2012 - loss of $62) arising mainly from rail traffic settlements between Canada and the U.S.A.

2. Significant Accounting Policies (continued)

Income Taxes

As a not-for-profit operational enterprise of the Province, the Commission is exempt from income taxes. This exemption extends to its wholly-owned subsidiaries, and accordingly no tax provision is recorded in these financial statements.

Accounting Estimates

The preparation of the consolidated financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the useful lives of capital assets, valuation allowances for accounts receivable and inventory and obligations for pension and non-pension post employment benefits. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the consolidated financial statements in future periods could be significant. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the consolidated statement of operations in the year in which they become known.

Cash

Cash include cash on hand, balances with banks, and restricted cash.

3. Cash

	March 31, 2013	March 31, 2012
Cash (bank overdraft)	$ 3,302	$ (4,790)
Cash related to Reserve for Self Insurance (Note 9)	4,953	4,796
Cash	$ 8,255	$ 6

4. Employee Future Benefits

The Commission is the administrator of its contributory pension plan which covers all permanent staff. The pension fund assets primarily include marketable securities, real estate and corporate and government bonds, which are invested by professional investment managers. The Commission's pension plans have an annual measurement date of December 31st.

The accrued pension benefit asset and non-pension benefit obligation and expenses are determined annually by independent actuaries in accordance with accepted actuarial practices and Canadian public sector accounting standards using management's best estimates. The date of the most recent actuarial valuation for the contributory pension plans for funding purposes was January 1, 2011. The results of this valuation were extrapolated to December 31, 2012. In accordance with existing pension regulations, annual valuations will be completed for the Commission's pension plans. The date of the most recent report for accounting purposes for the non-pension post employment benefit plan was December 31, 2012.

The pension plan's asset target percentage allocation and average asset allocation as at March 31, 2013, by category are as follows:

		Target	2013	2012
Equity securities	– Domestic	20% - 30%	**23.6%**	22.1%
	– Foreign	10% - 30%	**19.6%**	18.1%
Debt securities		35% - 55%	**54.0%**	57.6%
Real estate		0% - 15%	**0.9%**	1.7%
Short-term and other		0% - 15%	**1.9%**	0.5%
Total			**100%**	100%

4. Employee Future Benefits (continued):

a. Reconciliation of accrued benefit obligation to accrued benefit asset (liability):

Pension Plans:

	Pension	SERP	March 31, 2013	March 31, 2012
Accrued benefit obligation	$ (461,844)	$ (2,706)	$ (464,550)	$ (444,639)
Plan assets at fair value	468,286	-	468,286	461,953
Funded status - plan (deficit) surplus	6,442	(2,706)	3,736	17,314
Unamortized net actuarial loss	43,456	689	44,145	35,174
Accrued benefit asset (liability) net of valuation allowance - end of year	$ 49,898	$ (2,017)	$ 47,881	$ 52,488

	Pension	SERP	March 31, 2013	March 31, 2012
Accrued benefit asset - beginning of year	$ 54,447	$ (1,959)	$ 52,488	$ 29,502
Employee future benefit expense	(7,361)	(242)	(7,603)	(1,915)
Funding contributions	2,812	184	2,996	22,913
Special payments	-	-	-	1,988
Accrued benefit asset - end of year	$ 49,898	$ (2,017)	$ 47,881	$ 52,488

4. **Employee Future Benefits (continued):**

b. **Reconciliation of accrued benefit obligation to accrued benefit asset (liability)**

Non-Pension Benefit Plans:

	March 31, 2013	March 31 2012
Accrued benefit obligation - beginning of year	$ (79,552)	$ (72,683)
Unamortized net actuarial loss	9,831	4,540
Accrued benefit liability - end of year	$ (69,721)	$ (68,143)
Accrued benefit liability - beginning of year	$ (68,143)	$ (65,036)
Expense - Non-WSIB	(4,223)	(3,891)
Recovery (expense) - WSIB	476	(1,380)
Funding contributions - Non-WSIB	2,169	2,164
Accrued benefit liability - end of year	$ (69,721)	$ (68,143)

Included in the accrued non-pension benefit liability are workers' compensation benefits in the amount of $ 15,734 (2012 - $16,210). This amount has been determined from the most recent available actuarial calculations provided by the Workplace Safety and Insurance Board as at December 31, 2012.

c. **Components of Net Periodic Pension Benefit expense**

	2013	2012
Current service cost less employee contributions	$ 5,360	$ 4,189
Interest on accrued benefit obligation	27,337	26,958
Expected return on plan assets	(28,026)	(29,121)
Amortization of net actuarial gain (loss)	2,932	(111)
	$ 7,603	$ 1,915

4. Employee Future Benefits (continued):

d. Components of Net Periodic Non-Pension Benefit Expense

	2013	2012
Current service cost	$ 862	$ 2,568
Interest on accrued benefit obligation	2,561	2,544
Amortization of net actuarial losses	324	159
	$ 3,747	$ 5,271

e. Weighted Average Assumptions

Discount rate - pension	6.00 %	6.25 %
Discount rate - non pension	4.02 %	4.52 %
Discount rate - WSIB	7.00 %	7.00 %
Expected long-term rate of return on plan assets	6.00 %	6.25 %
Rate of compensation increase		
2011	1.5 %	0 %
2012 & 2013	2.0 %	0.5 %
2014 & thereafter	3.0 %	3.0 %
Average remaining service period (years)	12	12
Drug cost increases (grading down to 5% in 2020)	9.0%	9.0 %
Medical and hospital cost increases	5.0%	5.0%
Dental cost increases	4.5%	4.5%
Vision care cost increases	0%	0%

5. Operating Line of Credit

The Commission holds a demand operating line of credit with the Canadian Imperial Bank of Commerce in the amount of $1,500 which is available for letters of guarantee and is secured by the Commission's accounts receivable. At March 31, 2013, the letter of guarantee totalling $ nil (2012 - $ 428) had been issued.

6. Deferred Capital Contributions

Deferred capital contributions represent the unamortized capital reimbursements received from the Minister to fund the acquisition of capital assets. The amortization of deferred capital contributions is recorded as revenue in the consolidated statement of operations at a rate equal to the amortization of the related assets.

The changes in the unamortized deferred capital contributions balance are as follows:

	2013	2012
Balance - beginning of year	**$ 126,630**	$ 108,581
Contributions from the Province	**28,973**	22,358
Amortization to revenue – Rail Services	**(4,268)**	(3,438)
– Telecommunications (Ontera)	**(1,001)**	(871)
Retirements	**(2,241)**	-
Balance - end of year	**$ 148,093**	$ 126,630

7. Long-term Debt

	March 31, 2013	March 31, 2012
Loan from Ontario Financing Authority, bearing interest at 5.22% per annum, repayable in blended monthly payments of $30 for 15 years beginning February 1, 2005	**$ 2,099**	$ 2,348
Loan from Ontario Financing Authority, bearing interest at 5.60% per annum, repayable in blended monthly payments of $156 for 15 years beginning January 1, 2000.	**3,110**	4,757
Loan from Ontario Financing Authority, bearing interest at 6.37% per annum, repayable in blended monthly payments of $109 for 15 years beginning September 1, 1999.	**1,771**	2,929
Loan from Ontario Financing Authority, bearing interest at 4.90% per annum, repayable in blended monthly payments of $13 for 25 years beginning February 1, 2006.	**1,897**	1,962
Loan from Bank of Montreal, bearing interest at 5.11% per annum, repayable in blended monthly payments of $64 for 10 years beginning April 30, 2008. Secured by a floating charge on all Ontera assets.	**3,380**	3,959
Loan from Bank of Montreal, bearing interest at 5.95% per annum, repayable in blended weekly payments of $32 for 15 years beginning October 7, 2010. Secured by a floating charge on all Ontera assets.	**15,115**	15,893
	27,372	31,848
Less current portion	**4,756**	4,492
Long-term debt	**$ 22,616**	$ 27,356

7. Long-Term Debt (continued):

Interest on long-term debt was $ 1,686 (2012 - $1,937).

Payments required in the next five years and thereafter are as follows:

2013-2014	$	4,756
2014-2015		3,789
2015-2016		1,988
2016-2017		2,120
2017-2018		2,220
Thereafter		12,499
	$	27,372

8. Government Reimbursement

In accordance with a Memorandum of Understanding between the Commission and the Minister, certain operations of the Commission have been designated as non-commercial. The Commission and the Minister have entered into annual contribution agreements which define the amount of compensation which the Minister would provide each fiscal year.

A portion of the operating loss of the weekday passenger train service between North Bay and Toronto is reimbursed by the National Transportation Agency of Canada under Section 270 of the Railway Act. The federal government revoked the Railway Act during 1996 and replaced it with the Canada Transportation Act. Due to the shut-down of the Northlander train as at September 30, 2012, a reduced reimbursement of $ 1,544 (2012 - $2,500) was received from the National Transportation Agency of Canada for the year ended March 31, 2013.

Details of Government reimbursement received during the year are as follows:

	2013	2012
Ministry of Northern Development and Mines:		
Rail - Passenger Service and Moosonee Branch	$ **18,958**	$ 25,097
Special funding - Pension	**-**	19,884
Special funding – Cash deficiency and other	**29,749**	15,454
Special funding – Pay-off Lines of Credit	**-**	13,116
Special funding – Ontera	**-**	2,115
Marine Services (Moosonee)	**41**	49
	48,748	75,715
National Transportation Agency of Canada:		
Current year's operations	**1,544**	2,500
	$ **50,292**	$ 78,215

9. Internally Restricted Net Assets – Reserve for Self Insurance

The Commission follows the policy of self-insuring for damages from rolling stock derailments and for cargo damage. Annually the Commission transfers $100 from unrestricted net assets to the Reserve for Self Insurance (the "Reserve") to finance such costs. Interest earned on the reserve balance and claims expensed in the reserve balance are recorded as revenue and expenses in the consolidated statement of operations then transferred to/from the Reserve.

Periodically, the Commission borrows cash from the Reserve for its temporary use. The Commission pays interest to the Reserve at the bank's prime rate less 1.75% on these temporary borrowings.

10. Contingencies

In the normal course of its operations, various statements of claim have been issued against the Commission claiming damages for personal injury, property damages, environmental actions and employment-related issues. Damages, if any, cannot be estimated at this time and in any event the Commission is of the opinion that these claims are unfounded or covered by insurance after application of a $2,000 deductible. Should any loss result, it would be charged to the consolidated statement of operations when the amount is ascertained.

11. Commitments

The Commission is also obligated to certain job guarantee agreements with a significant number of its unionized employees. To the extent of any actual claims under these agreements, the Commission would maintain provisions for such items. Due to the nature of these agreements, the maximum exposure for future payments may be material. However, such exposure cannot be reasonably determined and no provision has been made as at the year-end date.

12. Economic Dependence

During 2013, the Rail Services Division derived 40% (2012 - 39%) of its revenue from three major customers.

Ontario Northland Transportation Commission
555 Oak Street East
North Bay, Ontario
P1B 8L3

1.705.472.4500 or 1.800.363.7512

info@ontarionorthland.ca
www.ontarionorthland.ca